

Accounting for Unclaimed Property

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Accounting for Unclaimed Property

Types of Unclaimed Property- Outstanding Checks

Outstanding Checks- This property type includes outstanding checks used as disbursements for the following types of property

- Payroll
- Commissions
- Accounts Payable
- Customer Refunds
- Customer Rebates
- Benefits
- Royalty Payments
- Official Bank Checks
- Money Orders
- Travelers Checks

Accounting for Unclaimed Property

Types of Unclaimed Property- Outstanding Checks

Outstanding Checks

Claims Checks

Unpresented Drafts

Trust Department Checks

Fiduciary Checks

Corporate Trust Checks

Interest checks relating to Savings and DDA accounts

Utility Refunds

Service Deposits

Room Deposits

Student Cancellation Fees

Accounting for Unclaimed Property

Types of Unclaimed Property Outstanding Checks-

Accounting Treatment- Outstanding Checks

- Generally, when a check is issued there is a Debit to the applicable expense and a Credit to cash. If the check remains out standing, then the total of the outstanding checks is part of the reconciliation to the General ledger . Some holders will wait 6 months or so before voiding the check off the outstanding list and moving the check to a suspense liability or escheat account.
- Other holders may keep the checks on the outstanding list for a number of years. If the check remains uncashed, then there is the temptation to write the checks off to income or expense.
- Writing off checks (i.e., stopping payment or voiding a check due to age) clearly is an improper accounting treatment of unclaimed property. If a holder discovers that this has taken place, the check amount should be reversed out of income and reinstated into a suspense liability account.
- The proper treatment would be to hold the checks in a liability account until the check meets the specific dormancy period. At that point a due diligence mailing may be required before reporting the property to the states

Accounting for Unclaimed Property

Types of Unclaimed Property-Outstanding Checks

- The check should remain in the liability account until it is claimed by the owner or reported as unclaimed property pursuant to each states dormancy periods (Generally 1 year for payroll and 3-5 years for other types of checks).
- If a holder is using a Third Party Agent (TPA) to handle the processing of payroll, benefit , rebate, refund or dividend checks, the company should review its service agreement with the TPA in order to determine who is responsible for reporting the uncashed checks. The holder should request copies of any unclaimed property reports filed by the TPA.
- After 180 days, the TPA may return the total of uncashed checks back the issuer in the form of a credit
- The states consider the party that has “made a promise to pay” (i.e., “the obligor”) ultimately responsible for reporting any uncashed checks as unclaimed property
- These funds should be segregated into a liability account until claimed or reported to the states.

Accounting for Unclaimed Property

Types of Unclaimed Property

Accounts Receivable Credit Balances/ Customer Overpayments

- Accounts Receivable-Due from Customers (“Trade Receivables”)
- Notes and Loans Receivables (Banks)
- Agents Balances (Insurance)
- Advertising Credits(Newspapers and Telecommunications)

Accounting Treatment of Credit Balances – Generally an aged listing of customer debits and credits is produced that balances to the general ledger

- Business to Business B2B exemptions may apply in some states
- The state is interested in the “net” credit balance due the customer in situations where open credits are being applied to an account
- The credit balance may remain outstanding until it is reported as unclaimed property to the states

Accounting for Unclaimed Property

Types of Unclaimed Property- Accounts Receivable Credit Balances /Customer Overpayments

- Credit balances normally are sometimes refunded through the issuance of a customer refund via an accounts payable check
- Internal follow up on aged items should occur on an annual basis
- The research involved in resolving credit balances can be time consuming and extensive
- Auditors generally track year end credit balances reports to identify if aged credit balances have been written off to income or used to reduce bad debt
- Netting unidentified debits against unidentified credits is improper
- Small balance credit write offs might make sense from a holder's perspective. However, most states do not exempt this type of diminimus property

Accounting for Unclaimed Property

Types of Unclaimed Property- Specific

Financial Institutions

Demand Deposit and Savings Accounts, CDs

- In many states if there has been no indication of interest by the owner (deposit, withdrawal, memo of interest on file) for the specified dormancy period, then the property would be considered dormant
- In some states, activity by the owner in other bank relationships i.e., payment on a loan, mortgage or credit rebuts the process of dormancy in the deposit account
- With a CD in ME, dormancy begins with the fifth anniversary of an automatic rollover certificate after the last indication of interest from the owner
- Many banks flag accounts as dormant after 2 years of inactivity. Statements and other communications may be suppressed

Accounting for Unclaimed Property

Types of Unclaimed Property- Specific

Financial Institutions

Money Orders, Travelers Checks

- In 1974, Congress passed the Disposition of Abandoned Money Orders and Traveler's Checks Act. The federal law required that if a bank had records related to where the instruments were purchased, the issuer should report that property to that state. In the case where there are no records on where the instruments were purchased, the property is reported to the principal place of business
- The dormancy period for money orders is generally 5-7 years and the dormancy for Traveler's Checks is generally 15 years

Accounting for Unclaimed Property

Types of Unclaimed Property- Specific Colleges and Universities

Student Fees/ Course Cancellation Refunds- If a student cancels a course , a refund of student fees and course fees may be due

Room Deposits- Security deposits held to cover any potential damages may be refunded to the student at the end of the semester

Loan Refunds- Students with paid up loans may be due refunds on the final payments

Portfolio Dividends/Interest and Stock- Excess dividends, interest and stock received as a result of trading activity may have been received by the University's Endowment fund . Generally the fund's custodian may be responsible for filing this type of property with the states. However, smaller endowment funds may act as their own custodian

Accounting for Unclaimed Property

Types of Unclaimed Property- Specific Colleges and Universities

Amounts due Brokers- The endowment fund may owe funds to brokers relating to portfolio transactions

Pension Funds for Public Employees- Many public employee pension funds are not covered by ERISA. Uncashed pension checks undistributed pensions may be reportable as unclaimed property. Many times, this property is being held by the fund's plan administrator. Typically, the administrator is an insurance company or commercial bank

Accounting for Unclaimed Property

Types of Unclaimed Property- Specific

Property and Casualty Insurance Companies (P&C)

- Premium Refunds- Policyholders may be due a refund on canceled policies
- Agents Credit Balances and Commissions- Similar to A/R credit balances, independent Agents may have a net credit balance due from the company
- Unpresented Drafts - Companies may issue a draft as an offer to settle. There are legal questions as to whether an offer to settle constitutes a fixed and certain obligation

Accounting for Unclaimed Property

Types of Unclaimed Property- Specific Property and Casualty (P&C)

Statutory Suspense Accounts

➤ 14. Amounts Withheld by the Company for Account of Others-

Generally amounts held for employees and agents are held in various general ledger liability accounts. Insurers need to review an aged reconciliation to determine if any items are unclaimed

➤ 15. Remittance and Items not allocated- These amounts relate to premium items that have been suspended until the insurer can identify the appropriate open premium receivable account. Insurers need to review an aged reconciliation to determine if any items are unclaimed

Accounting for Unclaimed Property

Types of Unclaimed Property- Specific **Life Insurance, Accident and Health (A&H)**

- **Premium Refunds (Life and A&H)-** Policyholders may be due a refund on canceled policies
- **Uncashed drafts and checks(Life and A&H)-** These are claims payments pursuant to life, annuity, endowment Accident & Health, Long term Care and disability policies
- **Agents Credit Balances and Commissions (Life & A&H)-** Similar to A/R credit balances, independent Agents may have a net credit balance due from the company. Agents Credit Balances is a line item on the Statutory statement line 18

Accounting for Unclaimed Property

Types of Unclaimed Property- Specific

Life Insurance

Life and Annuity Proceeds - These are policy proceeds that have reached the maturity or termination date of the policies

Limiting Age- If the insured reaches the limiting age of the mortality table then the policy has reached the limiting age of the mortality table. The policy is then matured and the face value of the policy is due the insured or the beneficiary depending on the provisions of the policy

Accounting for Unclaimed Property

Types of Unclaimed Property- Specific

Life Insurance

Statutory Suspense Accounts

➤ 17. Amounts Withheld by the Company for Account of Others-

Generally amounts held for employees and agents are held in various general ledger liability accounts. Insurers need to review an aged reconciliation to determine if any items are unclaimed

➤ 18 Amounts held for agents' account including \$ _____ in agents' credit balances. Companies need to review aged listings of agent debit and credit balances to ascertain if any items are unclaimed

Accounting for Unclaimed Property

Types of Unclaimed Property- Specific

Life Insurance

Statutory Suspense Accounts

➤ **19. Remittance and Items not allocated-** These amounts relate to premium items that have been suspended until the insurer can identify the appropriate open premium receivable account. Insurers need to review an aged reconciliation to determine if any items are potentially unclaimed

Accounting for Unclaimed Property

Types of Unclaimed Property- Specific

Life Insurance

Retained Asset Accounts-When the insured dies, many companies offer a form of life settlement called a Retained Asset Account (RAA). In this situation, the settlement due the beneficiary remains on deposit at the company. The beneficiary receives a check book for the account. These amounts would be considered unclaimed under the miscellaneous intangible sections of the various unclaimed property statutes.

Insurance Company Positions on RAAs -Some insurers believe that once a life insurance claim has been “settled” their liability has been extinguished and inactive RAAs are not unclaimed property



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